

Transcript

Conference Call of Dixon Technologies (India) Limited

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Presentation Session

Moderator: Good evening, ladies and gentlemen. Welcome to Dixon Technologies (India) Limited 2Q FY22 earnings conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchstone telephones. Please note that this conference is recorded. I would now like to handover the floor to Mr. Naval Seth from Emkay Global. Thank you and over to you sir.

Naval Seth: Thank you and good evening, everyone. I would like to welcome the management and thank them for this opportunity. We have with us today Mr. Atul Lall, Vice-chairman and Managing Director and Mr. Saurabh Gupta, Chief Financial Officer. I shall now hand over the call to Mr. Lall for his opening remarks. Over to you sir.

Atul Lall: Thank you Naval. Good evening, ladies and gentlemen, this is Atul Lall and we also have on the call today my colleague our CFO Saurabh Gupta. Thank you very much for joining this meeting call for the quarter ended September 2021. The order book in this quarter was very healthy which has led to a strong performance in an otherwise challenging environment marked by significant raw material price inflation. Basic commodity costs have gone up significantly over the past few quarters at rates that industry has never seen before. However, our profitability has improved sequentially from the previous quarter on account of improved operating leverage and calibrated pricing action despite severe input cost in place. While the team has managed the inflationary prices of commodity cost extremely well, the commodity environment is still uncertain and we need to keep this in mind for the upcoming quarter. However, we believe that our strategic approach, and the execution of the plan to manage this better than most of our industry peers will stand us in good stead and we are confident that the second half is going to be much better than the first half both in terms of revenues and profitability.

Now coming to the financial and operational performance of the quarter, the consolidated revenues for the quarter ended September 30, 2021 was Rs.2804 crores as against 1639 crores in the same period last year which is a growth of 71%. Consolidated EBITDA for the quarter was Rs.111 crores as against 89.6 crores in same period last year, a growth of 24%. Consolidated PAT for the quarter was 63 crores as against 52 crores in the same period last year, a growth of 20%. Gross margins and EBITDA margins contractions year on year were primarily driven by substantial change in segment mix with higher increase in share of business from our OEM businesses like

LED TVs at 53% and also the higher commodity prices impacting our ODM business of washing machine and lighting.

The company has always maintained a conservative financial profile, with an optimal capital structure (not clear). We are positioned with a robust balance sheet of net debt of 41 crores as on 30th September 2021. Our balance sheet's strength and enough credit lines from banks enable us to weather any future uncertainty and invest in long-term development of our business and puts us in an advantageous position as compared to our industry peers. The inventory levels have increased due to advances payment for securing components and also various supply chain challenges across the businesses. However, this remains our key focus area in the company and it is expected to normalize in the coming quarters with the scale of business now returning to normal level. Our basic approach with capital allocation policy and (not clear) of return on invested capital and financial stability and even in this quarter we have successfully delivered a strong ROC and ROE of 30% and 26.1% respectively at the end of Q2 and we feel confident the same will keep improving in the coming quarters and years.

Now I will share with you the (not clear) and the strategy leading to the vertexes going forward.

Consumer Electronics: Revenues for the quarter under review was Rs.1487 crores against 961 crores for the same period last year; a growth of 55% and the current quarter the revenue with AC PCB and reverse logistics business in this particular vertical was Rs. 32 crores and Rs. 2.4 crores respectively out of 1487 crores. Operating profit witnessed a growth of 34% year-on-year that is 26 crores in Q2 of financial year 22 against 27 crores in the same period last year. As informed to you earlier, now we have an installed capacity of 5.5 million sets. This is the capacity expansion we had undertaken which has already been implemented. This includes backward integration in FCM and SMT lines which is the largest capacity in India and taking care of 35% in Indian requirement. We started production of large screen sizes like 70", 75" and 85" screens. Further capacity of our SMT lines has been increased to 2.7 billion per annum from 1.8 billion. These expansion plans have already been executed. We have a total area of approximately half a million square feet in our integrated campus in Tirupathi which is fully backwardly integrated. We are also now further investing in injection molding and plastic processing for the mechanicals of LED TV which will start by Q4 of this fiscal.

So now we are the most vertically integrated. We are the largest capacity in LED TV and now we have our own ODM solutions ready. As informed to you earlier, in the last quarter, in monitors we have got orders from the largest global brands and a production line for this particular SKU has already been installed. We feel that the business execution....order execution in this particular SKU will start from Q4 of this fiscal, hopefully in fact by December of this year. The lines are already installed, the capacity is one million LED monitors per annum; the expected volumes in the year one will be in the range of 1.5 million and we expect the order book to increase significantly from year two. The revenue and profitability numbers in this particular SKU would be almost similar to LED TVs.

Coming to lighting: The revenue for the quarter witnessed a growth of 34% year on year. We did a top line of 396 crores in Q2 FY21-22 against 296 crores in the same period last year. It is now back to strong growth trajectory which we have been

demonstrating. We have a very healthy order book in this vertical in Q3 also. Operating profit witnessed a growth of 14% year on year. It did 32 crores in Q2 FY22 against 28 crores in the same period last year. The margins in lighting business has contracted due to impact of input cost as well as always a lag in passing on the price increase and to a large extent we have already been able to do it in Q2. We are India's largest ODM player in lighting and we have the largest capacity in various SKUs. LED bulb we have a capacity of 300 million which is approximately 50% of the Indian requirement. We have also developed (not clear) for smart LED bulbs, battens, downlighters, emergency bulbs for various customers. In battens also our expansion plan has already been executed and now we have a capacity of 5 million a month out of total Indian requirement of approximately 9 to 10 million a month. Also in downlighters, the capacity infusion has already been implemented. Now the capacity is 1.5 million a month against the total Indian requirement of three million a month. We are in the process of developing also lighting solutions and our product portfolio comprises of street lights and commercial lights. This will be launched by next year. We have got technical approval for exports of lighting products in Europe and hopefully now the business execution will start for Europe. For US markets the approvals are still awaited. We have filed our PLI applications in September 21 under the White Board for manufacturing of LED lighting component through or own fully owned subsidiary in line with our backward integration strategy which will make us more competitive. The total investment in the PLI project for lighting will be around 100 crores over a period of five years. We are expecting the approvals from the government to come within December this year.

In home appliances, the revenue for quarter showed a growth of 54%. It was 145 crores in Q2 FY21. It increased to 224 crores in Q2 FY22. Operating profit increased 10% year on year. It was 17 crores in Q2 last year versus 19 crores in the current year. So operating margins were lower at 1.85% due to the impact of commodity cost which has seen an interesting trend since there is always a lag in passing on the price increase to the customers. However, most of the increase has already been passed on in the present quarter. We presently have 160 odd models across semi-automatic category with the largest portfolio ranging from 6 Kgs to 14 Kgs. Recently we set up a new plant in Dehradun because the order book was very healthy and the forecast is very healthy for the next fiscal. The capacity in the semi-automatic category is going to be increased from the present capacity of 1.5 million to 2.4 million and this will be done by April-May next year. For the facility of fully automatic top-loading, now the plant is operational and we've got our orders from our anchored customer of 30K pieces and execution of these orders will start from the 15th of November, in the next month. Also we have added three new customers in the FATL category; with 96 variants across six to 10 Kg category with a manual capacity of six lakhs. So by April next year, our combined capacity of both semi-automatic and fully automatic top-loading would be around three million against the (not clear) in the government of around 7.5 to 7.8 million. So that's a large capacity.

Coming to mobile phone and EMS division, the revenues for this division for the quarter under review was Rs. 599 crores against 197 crores of mobile revenues for the same period last year. This is a growth of 203%. In the current quarter the revenues of set top boxes and medical equipment was 74 crores and 3.3 crores respectively out of 599 crores. Operating profit was Rs. 19.3 crores in Q2 FY22 as against 16.2 crores in the same period last year. The Motorola mobile business is an anchor customer done with PLI scheme has now ramped up and stabilized with monthly volumes touching 250K in the current quarter and our order book for the next quarter is significantly better. We have also finalized Nokia's feature phone business in addition to smart phones that we

are currently manufacturing and the production is likely to commence by Q4 of this fiscal with quarterly volumes of around 0.5 million and basing their work, we have another major customer Intel in the feature phone category. To meet their order book, we are setting up a new factory on lease in Noida with approximately two lakh square feet. This would be operational by December-January this year. We have got the first 5G phone order. This is for our new customer Orbic. This is primarily for export through operators like Verizon in the US market. We are also hopeful in fact confident of achieving our threshold revenue targets under the PLI scheme within November this fiscal that is next month. On Samsung side, the 4G phone order is extremely good and we are already touching almost 0.8 to 1 million every month and now we have been asked to increase the capacity to 1.5, 1.6 million. We have taken 5 acres of land in Noida and plan to make a big integrated mobile phone campus in the following year.

Set-top box business: In terms of set-top business, we manufacture 7 lakh set top boxes VOH, (not clear), setting cables and others in Q2 and reported revenues of 774 crores, by 2.12% of operating margins. This business given the pressure due to supply chain issues and availability of kit set for the set-top boxes. We have also added a new customer SUN TV in this vertical.

Medical electronics: We have sold 136 units of the RT PCR device where the revenues were around 3.3 crores with a healthy operating margin of 28%.

In security surveillance system we have seen a very strong growth of almost 149%. The revenues were 99 crores in Q2 FY21-22 as compared to 40 crores in the same period last year. Operating profit has increased from 1.2 crores in Q2 FY21 to 4 crores in Q2 FY22. The order book in this segment is very strong and we have to go for capacity expansion by setting up a new plant in Kopparthi in Andhra.

Coming to new projects, refrigerators as we have been guiding, the company has kicked off the refrigerator product. We have got the market study done finalized the broad design, appointed a technology partner. Machine ordering has started. We will be having a capacity of 0.6 million DC refrigerators which will be ramped up to a million in phase two in the year '23-24. This will give us the capacity of almost 11% to 12% for the Indian requirement. The product categories will be 170 liters to 220 liters. We have been sanctioned 14 acres of land in greater Noida on which this manufacturing footprint will be set. We feel that by Q4 of '22-'23 this should come into production in this vertical.

Laptops, tablets, IT hardware: Our factory has been approved and qualified by one of the largest global brand and in this vertical also we have got PLI approval under the IT hardware category and the production for this particular global brand would start from within this quarter in another month or so.

Coming to telecom and networking product, we have entered into an MoU with Video Teletext Limited to form a joint venture through our wholly owned subsidiary of Dixon Electro Appliances Private Ltd. The JV company will have 51% owned by Dixon and 49% the Bharti group. And the management will be with Dixon. The JV company has already got the approval from the Ministry of communication in October 21 under the PLI scheme of the government of India and we will start manufacturing (not sure), OMPs, modems, routers and set-top boxes in this particular entity. The agreement between the parties are in the final stages of conclusion and are expected to be concluded soon.

PLI for AC components PCB, assemblies for controllers, we have entered into an IOU with Rexxam Company Limited who are already our partners for the last four years to form a JV to wholly owned subsidiary at Dixon Devices Pvt. Ltd. The JV company will be 40% owned by Dixon and 60% owned by Rexxam. Rexxam currently outsources to Dixon the assembly of PCB assemblies for Dyson India. Under this JV the deeply embedded supply chain for Dyson global from China is going to be shifted to this JV. We have applied under the PLI scheme of Government of India for AC control boards. We have submitted an investment of 50 crores over a period of 5 years and for this PLI also we are expecting approvals to come within the next 30 or 45 days.

Coming to the next category of wearables and hearables, the Indian market is already booming in this. We have already started manufacturing TWS for boAT which is one of the most common end brand of late Indian level but at the global level and they are firming our relationship with boAT at a strategic level. They should be sharing (not clear) per day shortly. In this also the government of India is expected to roll out the PLI scheme which we will be pursuing vigorously. So I would just like to stop now and me and Saurab are there to raise any questions. Thank you so much.

Question and Answer Session

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Participants are requested to restrict to two questions per person during the initial round.

The first question comes from Renu Baid from IIFL. Please go ahead.

Renu Baid: Hi, good evening sir.

Atul Lall: Hi Renu.

Renu Baid: Good performance sir. Three questions from my side. First you did mention in terms of lot of initiatives in terms of new customers, new segments within the mobile phone category but progress, can you help us update in terms of how has been the progress in terms of ramp up and how are we expecting the next six months to gear up both for the smart phones and the PLI as well as for the core...except for the smart phones and the feature phone the sideline of the business. I just wanted to check if given the fact that Jio phones are getting launched....and we are seeing a structural trend of decline in the feature phone market. Do you think the Nokia and the ITEL addition that you have received would be more of a three to five year opportunity until this market eventually diminishes in terms of size?

Atul Lall: So Renu, you have put it out very aptly. One, to update on our execution status and also the order book under the PLI. So the ramp up after the initial challenges have stabilized fairly well. We are currently at a level of approximately 250K and we are fairly confident that this is going to be increasing significantly by 30%, 40% more in the forthcoming quarter. So we are going to be much above the upward ceiling described under the PLI and we are confident to raise the (not clear). So the business looks good now. The good and the positive aspect of this particular businesses is that the majority of the remaining customers are coming from global

markets. Second, always has been a risk strategy that we want to keep on acquiring customers. Acquisition of customers as of now has happened in the feature phone category and both the names I have shared with you, Nokia and Itel are the top most brand as far as the feature phone is concerned. But what you said is very correct and very true and that's what's going to happen. Feature phone is an industry, category which is going to be under pressure. But then once a relationship is started, and we are hopeful and we are confident that they are going to migrate to 4G and possibly 5G. For Nokia we are already doing it, for other brands we feel confident that we should be able to get into that.

Renu Baid: Right because Itel is a part of the Chinese Transsion group so that can add up significant potential volumes if that comes through PLI also for us.

Atul Lall: That's right.

Renu Baid: Sir the second question is I think a good part of the price increase is reflected in relative improvement for the washers portfolio. But given that plastic specifically PV and other prices have again jumped very sharply in the last one, one and a half months, how should we look at the margin profile and the ability to entirely transmit the price increase in the washers? And also alongside you will also have this scale up for Bosch. So probably do you think the second half FY22 could have continued headwinds for the washer's margin profile because of the ramp up cost and the cost headwinds?

Atul Lall: So again on this Renu, your understanding is fairly correct. The commodity super cycle continues and it is harsh. You know that in our ODN business it is the lag in passing on the price increase to the customers and initially there is a hesitancy that whatever maybe our contract it takes time. So finally we are confident that it is going to be passed on but yes, the margin profile is going to be under challenge for some time. There is still a lot of volatility on the commodity side although lately I see in the last two weeks that the freight rates have come down by almost 30% but then one has to wait and watch and this whole margin profile has to be under lens you know.

Renu Baid: Got it. The last question is on automation and factory optimization measures. If you can help us understand what are the various initiatives across the different segments. We had planned it initially for LED bulbs. How is it ramping across other segments and how are you working in terms of digitalizing some of the factory lines and bringing in the cost savings and efficiencies thank you.

Atul Lall: So I think I have shared with the house last time that we are partners with Siemens for our NES and for our (not sure) 4.0. So Siemens is gold standard globally for this particular industry process. So this product has already been launched. To start with this has been launched in our LED PV plant and our SAPL plant....a new plant. This has a timeline of around 8 to 12 months but one can I feel start seeing some tangible results by February-March. Once I am convinced about it, then this relationship is going to be extended to others. At the same time we are talking to....particularly for the mobile division because we want to benchmark globally the best. We are in discussion with some global consultant for doing this benchmarking exercises for us. So that's the way we are. We are extremely conscious of these initiatives and we are going to be pursuing them aggressively.

Renu Baid: Sure. Anyway the capex we have in mind for these kind of initiatives or savings anticipated thereafter?

Atul Lall: So I have not been able to put a specific figure on the savings, but this Siemens partnership is going to cost us almost seven crores.

Renu Baid: Got it.

Moderator: Thank you sir. The next question comes from Ms. Bhoomika Nair from DAM Capital. Please go ahead ma'am.

Bhoomika Nair: Yes sir, good evening sir, and congratulations for a good set of numbers. Just extending on the previous question on the mobile segment, if you could just kind of, you spoke about the volume numbers for the quarter being around 250K and kind of scaling up. How would it kind of split up between smart and feature phones and how much is one looking at from Nokia and Intel? And if I could also get the overall volume details for the quarter? That would be my second question.

Saurabh Gupta: So, there are two revenue streams there. One is, the non-PLI revenue streams and another one is the PLI revenue stream. So, what I am sharing with you Bhoomika is the PLI revenue stream. With the current volumes of the PLI revenue stream for smart phones is around 300K a month, 300K to 325K a month for the various customers that we have, which we feel in the next quarter is going to go up to around 450. And then under the PLI scheme, we are going to be launching the feature phones, which we are targeting to start from the next quarter. And this business is going to go almost a million a month.

Bhoomika Nair: Okay, which would be from the Nokia and Intel, in this segment. And ex-PLI sir?

Saurabh Gupta: So, that is the other business of Samsung, which is a large number wherein the 2G phone is around million and the 4G is presently around a million and is going to go up to around 1.5-1.6.

Bhoomika Nair: Okay. Sir, the other question is on the TV segment. If one looks at it, we have done quite well. We have ramped up. We have added customers quite regularly and moved into the higher range size TV. Now, how do we see growth out here over the next two to three years or will it be more kind of industry driven growth?

Saurabh Gupta: So one, in this particular vertical, one, it will be industry driven growth and we are trying our best to acquire some more share of certain brands. I can't give you the granular level details but, we are trying to acquire a larger share. So, industry growth plus larger share plus backward integration piece plus LED monitor piece.

Bhoomika Nair: Okay. And lastly on lighting, you spoke about the EU approval coming through. Can you, while obviously the market is slightly large for us to kind of tap into, but what is the kind of volumes or what kind of revenues can you scale

up to, in the next two to three years? Then I will come back in the queue for more questions.

Atul Lall: It is too early to put numbers to it, because it is a journey. And the first major milestone in this journey was the technical approval. So, it is good for us, the European approval, because that approval exercise itself takes five to six months, have come to an (not clear) now. So, we are in the final stages of negotiations with some European brands and hopefully we should have a breakthrough. In the US market, the approvals are still under process. We feel it is going to take a couple of months for those approvals to come through. So, for me to put a number to it, is very, very difficult. However, please appreciate that the global market for a single SKU like LED bulbs is around 8 million to 9 million dollars. So, they are having those breakthroughs and opportunities large, but it is very difficult and it is not going to be prudent of me to put a number to those things at this stage.

Bhoomika Nair: Right sir. Thank you very much and all the best. I will come back in the queue sir.

Atul Lall: Thank you.

Moderator: Thank you. The next question comes from Mr. Ankur Sharma from HDFC Life. Please go ahead, sir.

Ankur Sharma: Hi sir. Good afternoon and congrats on a good quarter. Firstly, if you could talk about the LED monitor business, what is the kind of volume you are looking at? I think you mentioned you will start production from Q4. So, what kind of volumes do you expect going into the next year? What is the average ASP and what kind of revenues can you get from this business? And also, can you share which brands have you tied up with?

Atul Lall: So, LED monitor capacities is a million. We see that in year one, we should be able to do 0.5 million. We should be able to reach a million from year two. The average, it is going to be 19 inches monitor to start with. And the average SKU is going to be somewhere around Rs.8000. The margin profile is going to be similar as TV. But, in this because there are certain PMA conditions by the Government of India, the backward integration piece would be deeper. And so, we feel that in the year one itself, we should be able to generate a revenue of around 400 crores to 450 crores. On the customer side, please be rest assured there are larger global plans. Due to certain confidentiality agreement, I am not able to share the names as of now. We will be making the suitable announcements shortly.

Ankur Sharma: Sir, makes sense. Second, if you could talk about the laptop PLI as well. I think there you said you are starting production from Q4. Again, what kind of volumes / revenues and margins you are looking at over the next say, FY2023, FY2024?

Atul Lall: You are referring to IT products?

Ankur Sharma: Yeah, laptops, IT products.

Atul Lall: So, there are upwards of three things under the PLI scheme. And in year two, it is 600 crores.

Saurabh Gupta: So, it is basically a good 300 crores for this year. Of course, this year we will only have, only three to four months of operations. But, next year it is 600 crores. And then it is 1600 crores, then the fourth year it is 2400 crores. Basically, we feel confident that we will be broadly be able to touch that ceiling revenues. So again as Mr. Lall mentioned, we have already tied up with one of the largest global brands. And clearly, we will start the production by December-January. So, we feel confident that the ceiling revenues are stable and we will strive towards that.

Ankur Sharma: Okay, perfect. And just one more on the lighting side, I think you have been talking about starting exports. I think you have been exploring customers outside India as well. So, where are we on that one, on the lighting side?

Atul Lall: So, Ankur as I said, in lighting, particularly when you are exploring markets like US and Europe, you need the safety approvals of each brand products that they are going to buy. So, we have recently around four weeks back, got the approval on the technical side from Europe, from the European lab and the US approvals, I think they are going to take another couple of months. So, we are ready to launch the product in Europe now. And we are fairly confident that we will have the breakthrough in a month or so

Ankur Sharma: Okay, fair. And just a last one on the CAPEX, because we are looking at a number of PLI schemes. I think you have spoken about quite a few new plants being set up. So, what kind of CAPEX number can you share for 2022 and 2023, broad numbers?

Atul Lall: So, till now we have done a CAPEX of 165 crores. And because, the opportunities in front of us are very large and we are going to pursue all of them, because those opportunities look real good, we are planning and other CAPEX is almost 320 odd crores in the next six months.

Ankur Sharma: Okay. And this includes, because there are some news articles on a plant we acquired from Bharti, on the telecom side. So, that is another 200 odd crores and that is included in this Rs.3.2 billion you spoke about, right?

Atul Lall: That's right.

Ankur Sharma: Okay sir. Thank you so much. All the best.

Moderator: Thank you sir. The next question comes from Mr. Aditiya from Investec. Please go ahead, sir.

Aditiya: Hi, good evening, sir. Sir, you spoke about Samsung smart phones and if I heard it right, you were speaking about almost 1 million units per month, which can be expanded to 1.5 million. So, does that mean that this contract is going to be even larger than let's say what we already have from Motorola and from some of the other PLI customers?

Atul Lall: So Aditiya, this is on consignment basis. And at present the 4G production for Samsung is the first level of manufacturing at SKD space. So, it is not exactly comparable. But, the volume is very large and the operating leverage is very large. There is no working capital intensity. So, the profile of these two businesses are different.

Aditiya: Okay. So, the scope of work that we will be doing will be very different, is it?

Atul Lall: That's right.

Aditiya: And would you anticipate this relationship to be developing into something much bigger and the scope of work to be increasing from here on? Because, Samsung itself has a fairly large facility and that is why I am kind of asking this question.

Atul Lall: No, it is going to be much larger, please be rest assured. And we are going to be much more deep into it.

Aditiya: Okay. Perfect. And sir, you mentioned about reaching the ceiling limit for PLI in November itself for this year, basis what all customers you already added, how does that look like for the next year, given that it does appear that some of the other companies that have applied for PLI would be missing their targets. Would you anticipate a similar trend to be continuing for the next two years as well?

Atul Lall: Yeah, the order book looks very healthy. And as per the revised guidelines under the PLI scheme for mobiles, the upward ceiling for the year two, because the next year it becomes the year two is 4000 crores and we are closely monitoring what peers are doing. And we are fairly confident that we are going to be much ahead of the ceiling.

Aditiya: Okay. And sir, lastly you spoke about some new customer additions on the washing machine side, sorry, I missed those details, was that on the semi-automatic side or top load side?

Atul Lall: Actually, in semi-automatic category also we have added new customers in tier-II and tier-III categories, because they are doing well. And we were having capacity constraints, so we were not able to execute that thing. However, the capacity expansion already in place those tier-II, tier-III plants are coming into our customer basket. What I specifically mentioned was that one of course is the anchor customer in FATL, fully automatic top loading. We have added three more customers in FATL.

Aditiya: Okay. And any sense that you can give on the likely volumes for those customers, sir?

Atul Lall: So, each customer will be somewhere in the range of around 25K to 30K a year.

Aditiya: Understood. That is very helpful sir. Thanks.

Moderator: Thank you sir. The next question comes from Ms. Sonali Salgonkar from Jeffries India. Please go ahead.

Sonali Salgonkar: Sir, thank you for the opportunity and congratulations on a great set of numbers. Sir, my first question is regarding the telecom PLI. Sir, could you please share with us the broader contours of this, the ceiling revenues and what are your expectations of ramping up over here?

Saurabh Gupta: So Sonali, basically it will be 51% or 49% JV with Beetel, which is of course a Bharti company. And the numbers, the initial numbers proovathat we think and the kind of visibility that has been shown by the Bharti Group is basically we are looking at anywhere between 1400 crores to 1600 crores revenue next year. And overall, in the next five years, the JV would have a potential to generate revenues of somewhere around, anywhere between 8000 crores to 9000 crores. So, these are the broad initial numbers. And of course, the anchor customer will be Airtel. But, of course Dixon manufactures for other players as well, so we are also in discussion with the other players as well. And clearly, we got the approval under the PLI in the mid of October. So now, we start up and we start manufacturing by Q4, somewhere in Q4. And clearly, we see that this kind of numbers which I just mentioned are definitely achievable. The ceiling numbers of course would be, so these numbers that I am including are taking into account the set top boxes. Set top boxes of course are not part of the PLI. The ceiling numbers that I mentioned for the telecom product is around 6600 odd crores. So, broadly this 8000 crores to 9000 crores would be the potential numbers under the PLI for the next five years, which will be 51%-49% shared by Dixon and **Beetel**.

Sonali Salgonkar: Got it. And my second question is regarding the chip shortages globally. Do you foresee this as a risk over the coming quarters? We have done much better than overall industry peers have done. So, what was our strategy, because none of the segments have been affected by the chip shortages so far, except the set top boxes that you talked about?

Atul Lall: So, undoubtedly the supply chain challenges, the price increases, the volatility in the pricing continues to be there. But I think because of the nimbleness of our concerned operating team, we have been able to do fine. Across the various product categories, especially washing machines in this current month we are going to do our highest ever sale. It is going to be a record sale and same is the case with TVs and also lighting we have been able to execute well. But, the supply chain challenges continues to be there. If they are going to abate, if they are going to subside, I keep my fingers crossed. But yeah, you have to be nimble, you have to put everything under the lens and execute well. That is what we are endeavoring to do. So, that is the kind of thing. And certain things I am seeing that there is melting now, there is some decrease in the freight rates. So, let us see how it pans out. But, the current quarter looks fine. And even the next quarter we feel that we are going to be fine. However, the challenges are going to be there.

Sonali Salgonkar: Got it sir. Sir lastly, just one clarification. You mentioned Rs.3.2 billion of CAPEX in the next six months. And have we already done 1.6 billion units for H1? The cumulative for FY2022, should we look at it as 1.6 plus 3.2?

Atul Lall: It is going to be 1.6 plus 3.2.

Saurabh Gupta: That is the right understanding. So, it will be around 4.5-4.8 billion.

Sonali Salgonkar: Got it. Thank you.

Moderator: Thank you. The next question comes from Mr. Ankush Agarwal from DPR. Please go ahead, sir.

Ankush Agarwal: Hi Mr. Lall, thanks for taking my question. Sir, I wanted your sense on how are we looking to share our PLI benefit between customers? So for example, in the mobile PLI scheme, you have already mentioned that Nokia and Motorola would be taking up most part of the ceiling. So, for a new customer like Orbic which comes up, what is left on the table for these guys?

Atul Lall: So, it would be very difficult for me to share with you the granular level details of how the value chain works. But, depending upon the customer, depending upon the nature of the business, the PLI benefit is shared across various customers. That is the only statement I can share as of now with you.

Ankush Agarwal: Okay. So, would it be a right assumption that Dixon India won't be having any, it won't be retaining any part of the PLI benefits?

Atul Lall: I am not able to share these details please...it is highly confidential.

Ankush Agarwal: Okay. And sir lastly, now since most of the PLI business is on the prescription basis and that is what is going to be the larger share of our business going ahead. So, what do you think our margin is going to stabilize in the long run over, let's say over the next five years or so, since almost 80%-90% of business had come from the prescription basis going ahead?

Atul Lall: So, we feel as of now the margins are going to be somewhere in the range of 4%, pushing up slightly. So, they are going to be in the range of 4%-4½%. However, if in a couple of years, we are able to execute and implement our backward integration strategy well and also we are able to migrate more and more to ODM, then the margin profile can have some push upwards. But, as of now they are going to be in the range of around 4% to 4.5%.

Ankush Agarwal: Okay. This is assuming our existing PLI businesses scales up and they remain in the prescription basis?

Atul Lall: That's right.

Ankush Agarwal: Okay, got it. That was very helpful. Thank you.

Moderator: Thank you sir. The next question comes from Akshay Kumar. He is an Individual Investor. Please go ahead, sir.

Akshay Kumar: Hi, good evening. Congrats sir on a great set of numbers. Sir, my first question is on line with the guidance that you had given for this particular fiscal year, which is closer to between 11500 crores to 12000 crores. So, this actually

indicates to an extremely strong sequential growth in the next couple of quarters. Are we on track to hit that, could we have an updated guidance?

Saurabh Gupta: Yeah Akshay, so your understanding is absolutely right. We feel that despite the challenges on the supply chain side, we feel confident that Q3 will be sequentially better than Q2, because while businesses are completely ramped up, backward generator needs a decent portion of revenue in Q3, Q4 and the new verticals that we are getting into. So, we feel confident that broadly the numbers that we have mentioned, somewhere between 11500 crores to 12000 crores is what we are looking at for this fiscal year.

Akshay Kumar: Thanks. And just a follow up on this. So, one is on the lines of, you had mentioned that there was a lot of CAPEX that goes into setting up the entire mobile infrastructure and given that now you have got the operating leverage on your side, can we expect expansion in March and hence closer to (not clear) this year itself? And given that you have won a fair amount of PLI schemes and there are a couple more coming along, what kind of revenue growth can we expect probably for the following fiscal year, following couple of fiscal years?

Atul Lall: So, we have seen, as shared with you that this fiscal would be somewhere between 11½ to 12. Next year we feel confident that we should be somewhere between 16000 crores to 17000 crores.

Saurabh Gupta: Beyond that actually it would be very difficult for us to give any numbers, because lot of moving parts are there. But yeah, for this year 11½ to 12 and for next year 16000 to 17000.

Akshay Kumar: Yeah, and the other question that I asked was around the operating leverage that is going to kick in on the mobile business?

Saurabh Gupta: Yeah, so operating leverage benefit will play out across all the verticals. With the increasing volumes it has already played out across the TV vertical. Basically, it will continue to play out around all the verticals, including the mobiles has increased, the volumes in Q3 and Q4. Definitely you will see the margin expansion happening in mobiles, which will lead to an overall margin expansion happening at the company level. And also, we are focusing more on backward integration, which is part of the strategy and more migration to ODM. So, these three levers, operating leverage, ODM, as well as backward integration should increase the margins. But, since most of the growth happening going forward will be in the prescriptive business, so the broader margins that we are looking for is around, in the range of 4% to 4½%, in the short term.

Atul Lall: Please appreciate this challenge across each vertical has been, if you pick up a vertical, build up a large scale, it takes some time, acquire an anchor customer, keep on adding more customers, deepen the manufacturing, have a deep dive into your analysis and capabilities on the ODM side. And if you see that if you have the skillset, then make an attempt there. That is the simple strategy to follow and that is what we are going to do across the new verticals also. So, scale will be important to generate the operating leverage, which I think is going to help us in the margin expansion.

Akshay Kumar: And would the exports also be a part of the margin expansion, once that kicks in with probably the lighting products and so on?

Atul Lall: Undoubtedly. And as shared, we are working very vigorously in the export market for the LED lighting. In the case of mobiles, almost 60% to 70% of our revenues are going to come from the global market. And in the earlier discussion also I had shared that we are going to be pursuing the FATL production for global market. The production and manufacturing is just about to start in a couple of weeks. And we already have some traction for exports from very large global brands. So, global market is going to be something we are going to pursue. But, at present it is at a very nascent stage.

Akshay Kumar: Got it. Thanks a lot, Atul, Saurabh. All the best for the future quarters.

Moderator: Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

The next question comes from Mr. Lokesh Garg from Credit Suisse. Please go ahead, sir.

Lokesh Garg: Hi sir. My question pertains to the LED TV segment. Basically, we have been growing in this segment for a while and now we are sort of increasing the vertical integration backed with plastic and injection molding and possibly other parts. And now is there a meaningful change in margins trajectory that we should assume, because we have been doing let's say within 2% to 3% band_ for a long while now. With this vertical integration steps, does it scale up and does it become an example for other segments to follow them?

Atul Lall: Yeah, yeah. So, for example lighting, our application (voice break) also, as you would have seen and as I shared with you, that we have already increased our PCBA capacity to 2.7 million from 1.8 million. That is the backward integration process, which is going to expand the margins. And we are also committing capex for installing the injection molding capacity for doing the mechanicals for TV, which is again towards, it is an effort for expanding the margins.

Lokesh Garg: But that I agree. But, I just wanted an objective guidance, in the sense that when that 3 became 6 with these two steps in vertical integration?

Atul Lall: Sorry, you are not very clear and audible. Can you again repeat?

Lokesh Garg: Yeah. Basically, what I was asking is, can let's say margins, because we are at a very low level today, 3% only or below 3%. Can we get to a (not sure) or something 5 or 6 with PCBA and injection molding in our fold now?

Atul Lall: I don't think so. Please appreciate Lokesh that this is a pass-through business. This is prescriptive business. In the last particular fiscal, because of the commodity increase and display price increase, the unit value has gone up. The unit value in our case (audio disturbance) around Rs.11000 to Rs.11500 and the last quarter is somewhere around Rs.17000. Now, your conversion charge does not

go up correspondingly. It is a different element in the value chain. So, as a percentage you will find that there is, that it comes under pressure. But, if you look at the gross numbers, which is being reflected in a significant expansion in the profits, in the operating profits, not at the margins, but at the operating profits, that is being reflected there. Are you getting my point?

Lokesh Garg: Yes, I am getting it, it is just that probably we were expecting a meaningful delta in percentage terms also and what you are saying is not necessarily immediate. Correct. My second question sort of leads from there only. You alluded in your opening remarks that there is an ODM solution ready in TVs. Earlier you were suggesting there were some challenges related to Android system and all that. What is the progress? And are we making some progress and talking to customers also then, in that segment, in that product?

Atul Lall: Solution is ready, but still Google has not opened up on giving Android licensing. So, the business to ramp up will take some time. We are pursuing with Google. But, the licenses are still not coming.

Lokesh Garg: Okay, sure. Thanks a lot sir.

Moderator: Thank you sir. The next question comes from Mr. Aditiya from Investec. Please go ahead, sir.

Aditiya: Hello sir. Sir, just wanted to understand on the CAPEX bit, given that we will be spending another Rs.320 crores in H2. If possible, if you could just give a broad break up of what all this CAPEX is entailing? And would a significant proportion of refrigerator CAPEX will also be happening this year itself?

Saurabh Gupta: Yeah, this is basically broad numbers would be, we are in the process of buying a landbank in Greater Noida. So, that would be basically be 20 acres landbank in Greater Noida. That would entail a CAPEX of 55 crores-60 crores in that. And that will be majorly for the refrigerator project and the backward integration of LED lighting components, so 60 crores is basically that. And also, the refrigerator project, the total CAPEX for 0.7 million will be somewhere in the range of around 200 crores. So, part of that payment, almost 40% of that CAPEX will go as payment towards advances, towards the plant and machinery. So, almost broadly, so that makes it almost 100 crores-110 odd crores. And there are other CAPEX's, one of course we are in the process of finalizing our agreements and concluding our agreements with Beetel. So, we are buying in addition to a plant in Noida, we will do our telecom and networking product, we are also buying their Beetel plant. So, there is an acquisition value attached to it. I will be able to disclose that once we sign the agreement and disclose it to the market. But, that is one CAPEX, which is projected in the short term.

Atul Lall: One is, we are going to be spending almost 40 crores in capacity expansion in washing machines, semi-automatic in Dehradun in the new plant Aditya and then we will also be making some small CAPEX for meeting the threshold requirements for the IT hardware. And then there is a regular capacity expansion and other CAPEX across all the other verticals, just like we are going to be expanding our capacity in CCTV also. So yeah, it is a mix of all that.

Saurabh Gupta: And also, the REXXAM JV also, so there also we have applied for and once we get the approvals, there is a CAPEX which we have to do as part of the first year CAPEX. So, all those put together we are looking at these numbers.

Aditiya: Understood. And any guidance or indication that you can give for next year as well?

Atul Lall: So, those numbers are difficult to be frozen. It is slightly premature.

Aditiya: Okay, perfect. Thank you, sir.

Moderator: Thank you sir. Ladies and gentlemen, that was the last question. Now, I hand over the floor to the management for closing comments.

Atul Lall: Thanks very much. Thanks very much Naval and Emkay and all the ladies and gentlemen who have joined this call. Thanks very much for all your support at all times.

Saurabh Gupta: Thank you everybody. Thank you for all your support. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, with this we conclude our conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good evening everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.